

Dr A H E M Wellink: Introduction to the press conference on the 1999 Annual Report

Speech by Mr A H E M Wellink, President of De Nederlandsche Bank, at the press conference, held in Amsterdam on 17 May 2000.

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The world economy is in good shape. In 1999 GDP growth came out at 3%, exceeding expectations. Yet, this overall pattern masks a number of risks and uncertainties. The motor driving the exceptional US economic performance - at the same time the motor driving the world economy - is in danger of becoming overheated. Southeast Asia recorded a rapid recovery from the financial crisis, but the Japanese performance remains weak. The first half of 2000, however, holds out better prospects.

In Europe, too, economic performance is improving. In 1999 GDP growth reached 2.3%. Though seemingly low compared to the 3% growth rate of the world economy, it should be noted that European growth accelerated considerably in the course of 1999. For the current year, a robust growth rate of 3-3.5% is expected. Thus, prospects for Europe are bright, definitely so if the structural reform policies are continued and the renewal of the economy, so evident in the United States, progresses further in Europe as well. There are no grounds to suppose that the ICT train will bypass Europe, provided, of course, that we see to it that we are well prepared. Despite the movements in the euro's external value, Europe may pride itself on a successful first year of monetary union. First and foremost, prospects for price stability in the euro area remain favourable, thanks not least to the success of the ECB: whoever would have thought two or three years ago that the launch of the euro would be as smooth as it has proved to be? In addition, Europe's vulnerability to external shocks, such as the Asia crisis, has undeniably diminished as a consequence of monetary union.

Good, better, best: in the Netherlands, we may meanwhile be doing too well. The Dutch economy is experiencing its most prolonged cyclical upturn in fifty years' time, due in part to the consumer spending impulse emanating from higher asset prices. For 1999 this impulse may be roughly estimated at NLG 10 billion (1.25% of GDP). In a sense, the situation in our country is comparable with that in the United States. We have now reached a point where caution is called for. In order to prevent the economy from overheating, it is first of all required that, apart from those already decided on, no further fiscal impulses should be provided; phrased differently, higher-than-expected revenues are to be reflected in lower public debt levels. Second, moderate wage movements are to be ensured. Even then, the new tax system for 2001 will boost average purchasing power by 4% or even more, representing a powerful stimulus for consumption.

Many commentators view the new millennium as the start of a "new economy". ICT developments will undoubtedly have a major impact on world economic performance; still, there is no indication whatever suggesting that economic laws have become fundamentally different. For this reason, and in order to be able to benefit to the full from the renewing economy, we must continue the structural reform policies (further improving the operation of the labour market, especially on the supply side, and of a number of product markets). More in general, policies must remain geared towards the achievement of well-balanced global macro-economic conditions (low inflation, more equilibrated balance-of-payments positions). We may well count our blessings, but should not close our eyes to reality.